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Indonesia

Solid Wood Products

Annual

2003

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Report Highlights:

Indonesia's forest condition continues to deteriorate with illegal logging and trading of logs. Due to the lack of law enforcement and inconsistency between local and central government policies, the rate of deforestation is rising and reforestation programs and industrial forest development carry on slowly. Local wood-based industries struggle to obtain high quality certified logs. As a result, revenues from the forestry sector each year decline significantly.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

Illegal logging and illegal trading of logs have been significantly damaging Indonesia's tropical rain forests and the wood working industry. Numerous regulations and policies have been made to curb those illegal practices, which includes banning of log exports, mandatory selective cutting and reforestation for sustainable forest management. Log exports were banned under a Joint Decree by the Minister of Forestry, No. 1123/KPTS-II/2001 and by the Minister of Industry and Trade, No. 292/MPP/KEP/10/2001 on October 8, 2001. The government is also attempting to control the utilization and sales of logs by requiring a certificate of origin. However, most regulations are not implemented properly due to lack of law enforcement, which result in continued unlawful practices. Issuance of small scale concessions (100 hectares) by the local government are also inconsistent with the central government's policy to tighten the control of its forest management, including issuing new and/or extending forest concession licences.

Concerns about Indonesia's tropical forest deterioration have been extended by many countries such as China and the Great Britain. Japan and the European Union are also scheduled to sign Memorandum of Understanding (MOU) prohibiting the sales of logs offered from illegal practices (logging and exports). Many institutions and experts studied and reported that illegal logging covered a tremendous volume of logs ranging from 51 million cubic meters (CUM) to 68 million CUM. Of this volume, approximately 10 million CUM of logs are illegally shipped out of the country and transported across Indonesia's borders with Malaysia. The loss associated from this unlawful practice is approximately US\$ 5.7 billion per annum (i.e., US\$ 4.08 billion losses from the price of logs and US\$ 1.63 losses from the unpaid taxes and fees). Annual forest deterioration rates are increasing, from a range of 1.6 - 1.8 million ha to 2.2 - 2.4 million ha.

Efforts on maintaining sustainable forests have been reinforced by the government in 2003, focusing on damaged river banks involving a budget allocation of Rp. 3 trillion (US\$ 333.3 million at Rp. 9,000/US\$1). The GOI sponsored "National Movement for Forest Rehabilitation" is also planned, providing 264 million seedlings of teakwood, shorea, acacia and multipurpose wood species at prices ranging from Rp. 300 to Rp. 5,000 per seedling. The "movement" is an effort to encourage the development of timber estates in eastern Indonesia. The Minister of Forestry plans to extend forest concession licences from 35 years to 100 years.

Because of uncontrollable illegal log exports, the supply of logs for the local wood-based industry has been deficient. To meet the demand for logs by the Indonesia's wood products industry, which requires more than 63 million CUM per annum (mostly processed into plywood), the industry must resort to imports. The Ministry of Forestry facilitates the importation of logs and has proposed to the Ministry of Finance to eliminate import duties on logs. Based on Minister of Finance Decree No. 129/KMK.04/2003 dated April 9, 2003, imports of raw material for exported finished products are exempt from paying 10 percent of value added tax (PPN-Pajak Pertambahan Nilai) and 2.5 percent of sales tax (PPn-Pajak Penjualan). The decree will become effective August 1, 2003. This decree may provide for increasing opportunities for American temperate hardwood logs and/or veneer, which had already been recognized by some companies, manufacturers and traders in Indonesia. Industry sources indicate that from various species of American woods, oak, cherry and birch are the most popular species for housing/office interior, furniture and handicraft. Improving business of domestic upper class housing/property industry also expedites demand for high quality interior and furniture.

Indonesia's plywood industry is the main user of wood products, consuming 70 percent of total log production. Despite the shortage in certified logs the industry maintain its production capacity by increasing efficiency, using lesser known wood species and using products not certified. Plywood production reached 7.7 million

CUM in 2003 and it is forecast to slightly increase to 7.8 million CUM in 2004. Exports of plywood also suffered from competition with similar products of cheaper price from China and Malaysia. Although export volume increased slightly from 6.3 million CUM in 2001 to 6.8 million CUM in 2002, export values have declined from US\$ 2.0 billion to US\$ 1.9 billion due to significantly lower prices.

Indonesian wood product exports contributed to 8.4 percent of total industrial products export value in 2002. Plywood exports reached its peak performance in 1993 with 9.7 million CUM valued at US\$ 4.6 billion (average price US\$ 472/CUM). Furniture and other wood-based product industries are in similar condition. They are all facing difficulties in obtaining adequate supply and good quality logs. Exports are also under government control. Only registered exporters (with a special permit for exporting wood products called ETPIK-Eksportir Terdaftar Produk Industri Kehutanan) may carry out their business. Also, exporters should have an endorsement from the newly formed Forestry Industry Revitalization Body or BRIK-Badan Revitalisasi Industri Kehutanan, to ensure that the products were made using legal logs.

SECTION II. STATISTICAL TABLES

Table 1: Strategic Indicator: Forest Area (million hectares/million cum)

Country: Indonesia Report Year: 2003	CY 2002	CY2003	CY2004
	Previous Calendar Year	Current Calendar Year	Following Calendar Year
Total Land Area	192.73	192.73	192.7
Total Forest Area	146.3	146.3	146.3
--of which, Commercial	99.5	99.5	99.5
----of commercial, tropical hardwood			
----of commercial, temperate hardwood			
----of commercial, softwood	2.8	2.8	2.8
--of forest area, non-commercial	47.7	47.7	47.7
Forest Type			
--Of which, virgin			
--Of which, plantation	2.8	2.8	2.8
--Of which, other commercial (regrowth)			
Forest Ownership			
--Nationally owned and no commercial access	48.7	48.7	48.7
--Nationally owned, commercial logging permitted	99.5	99.5	99.5
--Other publicly owned land, no commercial access	n/a	n/a	n/a
--Other publicly owned, logging permitted	n/a	n/a	n/a
--privately owned commercial forest	n/a	n/a	n/a
Total Volume of Standing Timber			
--Of which, Commercial Timber	n/a	n/a	n/a
Annual Timber Removal 1/	n/a	n/a	n/a
Annual Timber Growth Rate			
Annual Allowable Cut	12.6	6.9	5.8
<p>1/ If removals exceeds growth rate, analyze impact in text. Source: various sources, government and industry. Note: *) open to commercial exploitation, includes concessions. **) equal to pulp timber estate. ***) all commercial and non-commercial forest areas are nationally owned, rented to private concessions. ****) concession and community forest.</p>			

Table 2: Strategic Indicator: Forest Product Tariffs and Taxes (percent)

Country: Indonesia Report Year: 2003	Product Description 1/	Tariff		Other Import Taxes/Fees	Total Cost of Import	Export Tax
		Current Year	Following Year			
4401	Fuel Wood	0	0	10	10	none
4403	Wood in rough	0	0	10	10	none
4404	Poles/piles	5	5	10	15	none
4405	Wood/Wood Flour	5	5	10	15	none
4406	Rail sleepers	5	5	10	15	15
4407	Lumber, sawn, lengthwise	0-5	0	10	10-15	15
4407.29.110/120/130		5	5	10	15	
4407.29.210/220/230		5	5	10	15	
4407.91.100		5	5	10	15	
4407.99.999		5	5	10	15	none
4408	Veneer/plywood	5	5	10	15	15
4409	Lumber, moulded and rounded	0	0	10	10	none
4410	Particle board	5	5	10	15	none
4411	Fibreboard of wood	5	5	10	15	none
4411.11.000		5	5	10	15	none
4411.19.000		5	5	10	15	none
4411.21.000		5	5	10	15	none
4411.29.000		5	5	10	15	none
4411.31.000		5	5	10	15	none
4411.39.000		5	5	10	15	none
4411.91.000		5	5	10	15	none
4411.99.000		5	5	10	15	none
4412	Veneered panel	10	10	10	20	none
4413	Densified wood	10	10	10	20	none
4414	Wooden frames	10	10	10	20	none
4415	Packing cases/pallets	10	10	10	20	none
4416	Cask/Barrel/Vat/Tub	10	10	10	20	none
4417	Tool/handles	10	10	10	20	none
4417.00.000		10	10	10	20	none
4418	Builders' joinery	10	10	10	20	none
4419	Wooden tableware	10	10	10	20	none
4420	Jewellery cases	10	10	10	20	none
4421	Oth. Wooden articles	0-10	10	10	10-20	none
4421.10.000		10	10	10	20	none
4421.90.100		10	10	10	20	none
4421.90.200		10	10	10	20	none

4421.90.300		10	10	10	20	none
4421.90.400		10	10	10	20	none
4421.90.500		10	10	10	20	none
4421.90.600		10	10	10	20	none
4421.90.700		0	0	10	10	none
4421.90.900		10	10	10	20	none
4422	none	none	none	none	none	none
4423	none	none	none	none	none	none
4424	none	none	none	none	none	none
4425	none	none	none	none	none	none
Pre-fabricated Houses, a subsection under chapter 96						
9406		15	15	10	25	none
1/ Insert additional lines for Commodity tariff identification should tariffs vary within the four-digit designation.						
Source: Ministry of Finance Decree No. 567/KMK.017/1999 (Dec. 31, 1999); No. 570/KMK.01/1999 (Dec. 31, 1999) and Indonesia Customs Tariff, 2003 (March 2003)						

Note: Import duties and export tariff remain the same as previous year.

Table 3: Strategic Indicator: Wood Products Subsidies

Country: Indonesia	Previous Calendar Year	Current Calendar Year	Following Calendar Year
Year of Report: 2003			
Total Solid Wood Export Subsidy Outlay (\$US million)	none	none	none
Is there a ban on the export of logs, lumber, or veneer? If yes, which?	yes, for logs	yes, for logs	yes, for logs
Are there export taxes (yes/no)? 1/	yes	yes	yes
If yes, for which products? (Identify export tax level in tariff table)	CH. 4404/4406/4407/ 4408	CH. 4406/4407/4408	CH. 4406/4407/4408
Source(s) of Export Subsidy Information	Ministry of Industry and Trade		
Total Wood Production Subsidy Outlay (\$US million)	None	None	None
Are there any programs favoring the development of commercial forestry?	Reforestation Fund & Presidential Instruction (INPRES)		
If yes, Post best estimate of scope (thousands of hectares)	250	250	250
If yes, Post's best estimate of financial outlay (\$US million)			
Source(s) of Production Subsidy Information	Ministry of Forestry		
Does the country support export expansion activities similar to the Cooperator Program?	no	no	no
--Which country markets are targeted?	-	-	-
--Which products are targeted?	-	-	-
Are there significant wood products export expansion activities at the provincial or regional level?	no	no	no
--If yes, identify key players	-	-	-
--If yes, identify key market segments	-	-	-
--If yes, identify key country markets	-	-	-
--If yes, identify key products	-	-	-
--Post's estimate for combined outlay (\$US million)	-	-	-
Source(s) of Provincial/Regional Support Information	None	None	None
Are there other wood products export expansion activities? If yes, describe in report.	no	no	no

Source: Various sources.

Table 4: PSD Hardwood Plywood

PSD Table						
Country:	Indonesia					
Commodity:	Hardwood Plywood					
		2002		2003		2004
	Old	New	Old	New	Old	New
Market Year Begin		01/2002		01/2003		01/2004
Production	7300	7550	7200	7700	0	7800
Imports	0	0	0	0	0	0
TOTAL SUPPLY	7300	7550	7200	7700	0	7800
Exports	6500	6750	6300	6800	0	6800
Domestic Consumption	800	800	900	900	0	1000
TOTAL DISTRIBUTION	7300	7550	7200	7700	0	7800

Source: Apkindo - Based on Official Trade Data, Processed by FAS/Jakarta.

Unit: in 1,000 Cubic Meters (1,000 CUM).

Table 5: Export Trade Matrix: Hardwood Plywood

Export Trade Matrix				
Country:	Indonesia		Units: 1,000 CUM	
Commodity:	0			
Time period:	Jan-Dec			Jan-Dec
	2001			2002
U.S.	698		U.S.	763
Others			Others	
Japan	2359		Japan	2564
Middle East (Trad)	658		Middle East (Trad)	765
South Korea	600		South Korea	645
Continental	505		Continental	424
Taiwan	318		PRC	374
UK/Ireland	285		Taiwan	362
PRC	276		UK/Ireland	231
Other Mid. East	195		Other Mid. East	166
Hong Kong	176		Hong Kong	148
Singapore	103		Singapore	129
Total for Others	5475		Total for Others	5808
Others not listed	163		Others not listed	182
Grand Total	6336		Grand Total	6753

Source: Indonesian Wood Panel Association (APKINDO).

Table 6: PSD Tropical Hardwood Lumber

PSD Table						
Country:	Indonesia					
Commodity:	Tropical Hardwood Lumber					
		2002		2003		2004
	Old	New	Old	New	Old	New
Market Year Begin		01/2002		01/2003		01/2004
Production	6500	6500	6250	6250	0	6000
Imports	0	0	0	0	0	0
TOTAL SUPPLY	6500	6500	6250	6250	0	6000
Exports	0	0	0	0	0	0
Domestic Consumption	6500	6500	6250	6250	0	6000
TOTAL DISTRIBUTION	6500	6500	6250	6250	0	6000

Unit: in 1,000 cubic meters (1,000 CUM).

Table 7: PSD Tropical Hardwood Logs

PSD Table						
Country:	Indonesia					
Commodity:	Tropical Hardwood Logs					
		2002		2003		2004
	Old	New	Old	New	Old	New
Market Year Begin		01/2002		01/2003		01/2004
Production	26500	26500	25000	25000	0	21000
Imports	0	0	0	0	0	0
TOTAL SUPPLY	26500	26500	25000	25000	0	21000
Exports	0	0	0	0	0	0
Domestic Consumption	26500	26500	25000	25000	0	21000
TOTAL DISTRIBUTION	26500	26500	25000	25000	0	21000

Unit: in 1,000 cubic meters (1,000 CUM).

No imports and exports of tropical hardwood logs (covers by HS code 4403.31 - 4403.35) reported by the Central Statistics Agency (CBS).

Table 8: Check Prices of Export Commodities (FOB)
 Effective from January 1 through March 31, 2003
 Announcement of the Director General of International Trade
 No. 499/DJPLN/XII/2002 - Dated December 31, 2002

HS Codes	Description of Goods	Check Prices US\$	Unit CUM/Ton
Sawn Timber including Sleepers and Veneer			
4406	Sandalwood group	8,000.00	Ton
4407.99.110/120	Ebony wood group	4,000.00	CUM
4407.99.210/290			
4407.99.300/310			
4407.99.911/912			
4407.99.991/992			
4408			
4406	Other Fancy Wood	4,000.00	CUM
4407			
4408			
4406	Teak Wood	1,000.00	CUM
4407.29.110			
4407.29.210			
4407.29.310			
4407.29.910			
4408			
4406	Group of Meranti	450.00	CUM
4407.26.110			
4407.26.210			
4407.26.310			
4407.26.910			
4408			
4406	Mixed Forest Wood Groups	450.00	CUM
4407			
4408			
4406	Rubber Wood	200.00	CUM
4407.99.140			
4407.99.230			
4408.99.914			
4408			

Source: Directorate of Agriculture Product Export, Ministry of Industry and Trade.

Note: The decree will remain valid until further notice or new decree is announced.

Table 9: Production of Logs by Type of Logs (in CUM)
(1998 - 2000)

Local Name	Latin Name	1998	1999	2000*)
Agathis	Agathis	53,634	47,480	37,865
Bakau	Rhizophora spp.	379,071	419,220	438,179
Bangkirai	Shorea lalvifolia	169,885	87,646	115,542
Benuang	Octomeles sumatrana Miq	31,302	29,379	15,830
Damar	Shorea spp.	14,430	10,460	12,445
Duabanga	Duabanga molucana BI	26,237	53,067	40,996
Indah	Fancy Wood	169,335	175,212	146,446
Jelutung	Dyera spp	75,203	61,972	54,203
Kapur	Dryobalanops spp.	295,275	326,614	310,945
Kruing	Dipterocarpus spp.	932,468	746,037	836,454
Meranti	Shorea spp.	7,316,142	6,903,600	7,109,871
Mersawa	Anisoptera spp.	61,324	59,476	57,169
Nyato	Palaquium spp.	67,678	73,166	70,422
Palapi	Terrictia spp.	25,208	25,079	25,143
Ramin	Gonystylus bancanus Kurz	292,176	211,995	252,086
Resak	Vatica spp	14,603	16,019	26,881
Other		1,656,329	1,847,589	2,290,170
Mixed Forest Wood		2,494,102	4,104,283	3,923,088
Indonesia		14,074,402	15,198,294	15,763,735

Source: Central Statistics Agency (BPS).

Note: *) Estimates Figure.

Table 10: Production of Logs by Province (in CUM)
(1999/2000 - 2001)

No.	Province	1999/2000	2000*)	2001
1	Special Territory of Aceh	83,528	34,800	38,346
2	North Sumatra	1,452,247	732,488	750,497
3	West Sumatra	341,616	28,811	8,763
4	Riau	4,882,514	2,258,163	1,410,858
5	Jambi	1,551,598	724,005	2,036,250
6	Bengkulu	48,860	14,556	0
7	South Sumatra	436,083	1,979,720	1,866,037
8	Lampung	9,975	27,500	0
9	West Java	0	0	0
10	Sp.Terr. of Jakarta	32	0	0
11	Central Java	14,841	0	0
12	Sp.Terr. of Yogyakarta	0	130,988	0
13	East Java	402,942	0	0
14	Bali	1,486	34	0
15	West Nusa Tenggara	8,265	58,429	47,441
16	East Nusa Tenggara	520	0	0
17	West Kalimantan	1,033,666	244,477	120,901
18	Central Kalimantan	4,198,990	1,281,432	593,499
19	South Kalimantan	298,048	236,198	52,524
20	East Kalimantan	1,402,650	3,359,020	970,054
21	North Sulawesi	71,909	51,514	26,945
22	Central Sulawesi	316,867	139,219	58,318
23	South Sulawesi	339,081	159,561	93,368
24	S.E. Sulawesi	85,186	5,426	0
25	Maluku	255,532	81,224	0
26	Irian Jaya	1,492,604	739,674	522,275
	State Enterprise Perhutani	1,890,901	1,511,001	1,455,403
	TOTAL	20,619,942	13,798,240	10,051,481

Source: Forestry Statistics of Indonesia, 2001.
Directorate General of Forest Production Development,
Ministry of Forestry.

Note: *) April - December 2000.

Table 11: Production of Lumber by Province (in CUM)
(1999/2000 - 2001)

No.	Province	1999/2000	2000*)	2001
1	Special Territory of Aceh	62,531	91,812	29,015
2	North Sumatra	51,029	74,207	23,187
3	West Sumatra	20,793	9,120	5,098
4	Riau	260,731	195,880	2,420
5	Jambi	34,886	188,271	141,543
6	Bengkulu	961	2,090	0
7	South Sumatra	105,546	223,560	171,001
8	Lampung	490	292	0
9	West Java	0	0	0
10	Sp.Terr. of Jakarta	0	0	0
11	Central Java	54,789	0	0
12	Sp.Terr. of Yogyakarta	0	0	0
13	East Java	177,326	0	0
14	Bali	0	0	276
15	West Nusa Tenggara	7,283	7,794	8,986
16	East Nusa Tenggara	0	269	3,137
17	West Kalimantan	127,101	137,627	36,046
18	Central Kalimantan	135,894	219,116	54,210
19	South Kalimantan	132,026	104,194	37,492
20	East Kalimantan	89,396	346,885	129,298
21	North Sulawesi	5,021	2,950	0
22	Central Sulawesi	6,989	22,754	0
23	South Sulawesi	18,639	0	9,451
24	S.E. Sulawesi	748,057	1,302	5,797
25	Maluku	3,496	5,773	888
26	Irian Jaya	17,179	1,155,647	17,024
	TOTAL	2,060,163	2,789,543	674,868

Source: Forestry Statistics of Indonesia, 2001.
Directorate General of Forest Production Development,
Ministry of Forestry.

Note: *) April-December 2000.

Table 12: Production of Plywood by Province (in CUM)
(1999/2000 - 2001)

No.	Province	1999/2000	2000*)	2001
1	Special Territory of Aceh	35,475	37,587	0
2	North Sumatra	129,100	242,093	104,458
3	West Sumatra	53,942	54,504	50,687
4	Riau	398,015	240,594	0
5	Jambi	339,229	428,637	528,975
6	Bengkulu	0	0	0
7	South Sumatra	63,770	88,241	86,280
8	Lampung	2,848	3,937	0
9	West Java	0	0	0
10	Sp.Terr. of Jakarta	0	0	0
11	Central Java	54,683	0	0
12	Sp.Terr. of Yogyakarta	0	0	0
13	East Java	44,782	0	0
14	Bali	0	0	0
15	West Nusa Tenggara	0	0	1,174
16	East Nusa Tenggara	0	0	0
18	West Kalimantan	890,905	626,595	147,121
19	Central Kalimantan	165,814	533,505	93,392
20	South Kalimantan	1,004,049	1,040,528	151,769
21	East Kalimantan	1,053,532	1,005,466	756,302
22	North Sulawesi	0	307	0
23	Central Sulawesi	0	0	0
24	South Sulawesi	61,155	0	80,205
25	S.E. Sulawesi	0	0	0
26	Maluku	60,074	22,090	4,248
27	Irian Jaya	254,505	118,650	96,873
	TOTAL	4,611,878	4,442,735	2,101,485

Source: Forestry Statistics of Indonesia, 2001.
Directorate General of Forest Production Development,
Ministry of Forestry.

Note: *) April - December 2000.

Table 13: Reference Prices for the Calculation of Resources Royalty Provision (PSDH)

Decree of the Minister of Industry and Trade
 No. 510/MPP/Kep/6/2002 - Dated: June 28, 2002
 Effective from July 1, 2002 through December 31, 2002

Description of Products	Reference Price (Rupiah)	Unit CUM/Ton
I. Logs		
a) The meranti (timber tree) and the mixed forest wood		
1. Timber originating from Region I (Sumatra, Kalimantan, Sulawesi, Maluku)		
a. Meranti group	500,000.00	CUM
b. Mixed Forest group	300,000.00	CUM
2. Timber originating from Region II (Irian Jaya, Nusa Tenggara, Bali)		
a. Meranti group	414,000.00	CUM
b. Mixed Forest group	221,000.00	CUM
b) Other than the meranti & mixed forest groups		
1. The fancy wood group, incl. Sonokeling (<i>Dalbergia latifolia</i>), Ramin (<i>Gonystylus bancanus</i>), Kulim (<i>Scorodocarpus borneensis</i>)	905,000.00	CUM
2. The Torem wood (Region I)	360,000.00	CUM
3. The Torem wood (Region II)	265,000.00	CUM
c) Groups of other types of timber		
1. Groups of other types of timber (Region I) [Mentaos (<i>Wrightia javanica</i> DC), Kisereh (<i>Cinnamomum parthenoxylon</i>), Perupuk (<i>Lophopetalum</i> spp), Giam (<i>Cotylelobium</i> spp), Balangeran (Shore balangeran Burck), Kulim (<i>Scorodocarpus bprmeemosos</i> Becc)]	500,000.00	CUM
2. Groups of other types of timber (Region II) [Mentaos (<i>Wrightia javanica</i> DC), Kisereh (<i>Cinnamomum parthenoxylon</i>), Perupuk (<i>Lophopetalum</i> spp), Giam (<i>Cotylelobium</i> spp), Balangeran (Shore balangeran Burck), Kulim (<i>Scorodocarpus bprmeemosos</i> Becc)]	414,000.00	CUM

Description of Products	Reference Price (Rupiah)	Unit CUM/Ton
II. Logs of small diameters (not applicable to groups 1.b.1. and 1.c.)		
a. Logs with diameter < 30 cm	204,000.00	Ton
b. Palisades	10,200.00	Piece
c. Fish-trapping stakes and piles	32,200.00	Piece
d. Beams for flat-car rails	127,200.00	Piece
e. Charcoal of:		
- Mangrove and Meranti	320,000.00	Ton
- Mixed Forest wood	150,800.00	Ton
f. Fire wood	15,000.00	SM
g. Teakwood stump	278,800.00	Ton
III. Logging waste	204,000.00	Ton
IV. Chip raw materials (BBS) shall be logs with small diameters which shall be processed into chips	204,000.00	CUM
V. Other Assortment Wood		
1. Yellow wood	494,000.00	Ton
2. Ebony wood	6,000,000.00	Ton
3. Teak wood:		
- Diameter of 30 cm and up	764,000.00	CUM
- Diameter of 20 cm -- 29 cm	485,000.00	CUM
- Diameter of <19 cm	192,000.00	CUM
4. Mangrove wood	151,000.00	Ton
5. Pine wood	127,200.00	Ton
6. Yellow sandalwood:		
- Part of yellow sandalwood with hard core in all shape	7,000,000.00	Ton
- softwood (between bark and xylem) of yellow sandalwood in all shapes	700,000.00	Ton
VI. Wood from timber estate/plantation (HTI)		
a. Pine	42,400.00	Ton
b. Acacia	27,800.00	Ton
c. Balsa	17,000.00	Ton
d. Eucalyptus	27,800.00	Ton
e. Gmelina arborca	27,000.00	Ton
f. Rubber	42,400.00	Ton
g. Sengon	17,000.00	Ton

Description of Products	Reference Price (Rupiah)	Unit CUM/Ton
VII. Timber from state-owned forestry company		
Perum Perhutani and Yogyakarta special region		
a. Teakwood and Sonokeling logs		
1. Diameters of 30 cm and above	744,400.00	CUM
2. Diameter of 20 cm -- 29 cm	485,000.00	CUM
3. Diameter of <19 cm	192,000.00	CUM
b. Fancy forest logs (Sonobrite, Mahogany)		
1. Diameters of 30 cm and above	384,000.00	CUM
2. Diameter of 20 cm -- 29 cm	134,000.00	CUM
3. Diameter of <19 cm	81,400.00	CUM
c. Logs of the types of pine, resin, sengon, balsa		
Eucalyptus, Jabon, Acacia mangium, rubber and		
Gmelina Arborea		
1. Diameters of 30 cm and above	134,440.00	CUM
2. Diameter of 20 cm -- 29 cm	118,000.00	CUM
3. Diameter of <19 cm	80,000.00	CUM
d. Mixed forest logs		
1. Diameters of 30 cm and above	118,000.00	CUM
2. Diameter of 20 cm -- 29 cm	80,000.00	CUM
3. Diameter of <19 cm	58,500.00	CUM
e. Rasamala	127,200.00	CUM

Note: The above Reference Prices structure will remain valid until a new structure becomes available.

Table 14: Reforestation Fee

Government Regulation No. 92/1999 - Dated: October 13, 1999
(Currently Valid until A New Regulation is Announced)

No.	Description	Unit	Tariff/Unit US\$
A.	Kalimantan and Maluku Region		
	- Meranti Group	CUM	16
	- Mixed Forest Group	CUM	13
B.	Sumatera and Sulawesi Region		
	- Meranti Group	CUM	14
	- Mixed Forest Group	CUM	12
C.	Irian Jaya and Nusa Tenggara Region		
	- Meranti Group	CUM	13
	- Mixed Forest Group	CUM	10.5
D.	All (Indonesia) Region		
	1. Ebony wood	Ton	20
	2. Teak wood	CUM	16
	3. Fancy wood	CUM	18
	4. Sandalwood	Ton	18
	5. Pulp wood (Bahan Baku Serpih or BBS)	Ton	2
	6. Logging waste and other specific wood products	CUM	2
E.	Pulp wood processed in regions that has no pulp and paper mills	CUM	0
F.	Pulp wood used for join research by PT. Inhutani I,II,III,IV, and V with intermediate wood chips producers using portable machinaries	CUM	0
G.	Logs donated for natural disaster victims and other social affairs	CUM	0

Table 15: Exchange Rate Table

Exchange Rate (Rp./1US\$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	2387	2403	2418	2443	2458	2450	2528	2190	3350	3700	3740	5700
1998	13513	9377	8740	8211	10767	15160	13850	11700	11314	9142	7755	8100
1999	9419	8992	8778	8632	8179	6750	6989	7736	8571	6949	7439	7161
2000	7414	7517	7598	7988	8728	8742	9055	8370	8891	9483	9524	9385
2001	9488	9914	10460	12117	11423	11436	9744	9045	9696	10358	10476	10450
2002	10383	10222	9779	9441	9823	8741	9171	8938	9057	9233	8976	8940
2003	8876	8905	8908	8675	8279	8285						

Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper.

Note: - June 2003 exchange rate is quoted for June 30, 2003.
 - BPS data available up to Sep. 2002.

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

Forest Situation/Outlook

Indonesia is working hard to focus its efforts on improving its forestry management through sustainable environmentally preserved forests and a continuous supply of logs for the domestic wood products industry. While the GOI tries to enforce regulations to curb illegal logging and log trade via laws governing mandatory selective cutting system and new forest concession licences, high volumes of illegal logging and deforestation continues to increase. Timber estate development and reforestation programs take place very slowly. Various fees are charged for logs harvested from the designated areas (totaling around US\$35/CUM), which is expected to inhibit excessive log harvests. On the contrary, such fees have only encouraged increases in illegal logging. Exports of logs are prohibited and exports of wood products may only be carried out by registered exporters of forest product industries (ETPIK holders) through the endorsement from the newly formed Forestry Industry Revitalization Body (BRIK). It is very unfortunate that due to limited staff, vast forest area, issuance of small scale logging licences (100 hectares) by local government and lack of law enforcement these illegal logging operations and log smuggling persist. (Note: Production and exports from illegal cutting are not reflected in official production or trade data).

While the GOI works towards sustainable forest management, deforestation rates are reportedly increasing from previous the range of 1.6 - 1.8 million ha per annum to a current estimate of 2.0 - 2.4 million ha per annum. Besides illegal logging, forest fires (from concession area as well as land clearing for farming) is a major factor in serious damage to Indonesia's forest area. To guarantee the sustain ability of its forests, the GOI requires concession holders to replant for every log they harvest. In addition, reforestation program also includes developing timber estates (HTI-Hutan Tanaman Industri).

The GOI lowered the annual allowable cut from the natural forest from 12.6 million CUM in 2002 to 6.9 million CUM in 2003 (Minister of Forestry Decree No. 19/Kpts-VI/2003 dated January 10, 2003). This may result in a tighter supply of wood available increased costs for wood products locally as well as in export market. Of course this policy will not guarantee or even curb illegal logging and exports. Stricter enforcement and big efforts are indeed crucial to stop unlawful practices. Since domestic enforcement is difficult, the GOI has requested neighboring countries to prohibit imports of illegal logs from Indonesia.

Tropical hardwood lumber production is forecast to decline from 6.3 million CUM in 2003 to 6.0 million CUM in 2004, due to an anticipated 50 percent reduction in annual allowable cuts on areas designated as production forests. With annual allowable cuttings dropping from 12.4 million CUM in 2002, 6.9 million CUM in 2003 to 5.7 million CUM in 2004, additional log harvests from other sources, such as community forests and timber estates are being utilized. As supplies from the other sources are insufficient, total hardwood log production (not including illegal logs) is forecast to decline from 25.0 million CUM in 2003 to 21.0 million CUM in 2004. The expected decline in production is less than what may be suggested by the targeted decline in allowable cuts, because great uncertainty exists regarding whether the reduction in cuts can and/or will be implemented consistently.

Solid Wood Products Situation/Outlook

In its efforts to provide adequate supply of logs for local industry and maintain the sustain ability of its tropical rain forest, the GOI lowered the annual allowable cut from 12.6 million CUM in 2002 to only 6.9 million CUM in 2003. This will substantially disrupt the wood products industry and lower its overall revenues. Improving the efficiency of log utilization, and increasing the utilization of less-commercial products such as rubber wood and other fast growing wood species are also being exercised. In addition to sources such as production forest and state forestry enterprises, log supplies are also expected to come from the community forests which can produce quite significant amount of logs. Imports are another alternative source of raw materials for woodworking industry and are supported by the government with various facilities.

In an effort to survive, plywood production continues to maintain its operations, producing 7.7 million CUM in 2003 to an expected volume of 7.8 million CUM in 2004. **Many plywood companies are reportedly out of their businesses and some** are reportedly struggling for survival with much slower operations and made the business economically less-feasible. Plywood export prices reached a record low of US\$ **282/CUM** in 2002, compared to the highest price of US\$ **472/CUM** that was reached in 1993. Political instability in several parts of the country, particularly Aceh, Maluku and Irian Jaya, have contributed to the production decline. Furthermore, excessive requirements and weak economic conditions in many importing countries (particularly Japan) have reduced demand for Indonesia's plywood, which are produced mainly for export. Approximately ninety percent of Indonesia's plywood production is exported (including fancy plywood that are laminated with fancy veneer from American hardwood species) and the balance is used for domestic construction projects.

To enhance competitiveness, plywood mills utilize logs more efficiently, using the by-products from plywood production processes to make particle/block/medium density fiberboard and produce more value-added products such as fancy plywood. Developing new markets have been the major focus of the industry. Despite cumbersome constraints that the industry is facing (including significant downfall in prices), plywood exports volume could reach 6.7 million CUM in 2002 and is expected to increase to around 6.8 million CUM in 2003 and 2004.

Trade

Indonesia's main forest products export is plywood. The value of plywood exports in 2002 reached US\$1.9 billion down from US\$ 2.0 billion in 2001. This contributes an average of 54 percent of the total annual wood products export value or 5 percent of total industrial products export value in 2002. Total value of wood product exports are more or less stable at US\$ 3.3 billion in 2001 and US\$ 3.2 in 2002, which accounted for around 8.0 percent of Indonesia's total industrial product export revenue in 2002. Official trade data reported that log exports (temperate soft wood species, not including tropical hardwood) for 2002 reached approximately US\$ 10 million. This is substantially down from US\$ 67.8 million in 2001. Current average log prices are very low in the local market ranging from Rp. 400,000/CUM to Rp. 450,000/CUM.

Official Indonesia trade data shows that the import value of veneer (coniferous, hardwood and other woods) in 2002 reached US\$ 9.1 million, down quite significantly from US\$ 14.5 million in 2001. Major suppliers were the United States, China and Japan with their shares of US\$ 2.8 million (30.8 %), US\$ 2.4 million (26.4%), and US\$ 1.7 million (18.9%) respectively. Imports of veneer from the U.S. also declined over 50 percent. Total imports of temperate hardwood logs in 2002 reached US\$ 28.2 million down from US\$ 29.8 million in 2001, dominated by temperate hardwood species from the United States valued at US\$ 22.2 million or around 79 percent of the total. Temperate hardwood lumber imports in 2002 valued at US\$ 18.2 million increased from US\$ 15.9 million in 2001. The United States continued to be the largest supplier of temperate hardwood lumber (27.1%) followed by China (14.2%).

Marketing

Indonesian wood products industries are grouped under associations of the same line of business such as Apkindo (wood panel/plywood manufacturer), Asmino (furniture industry), APHI (logging operations), ISA (lumber/wood working industry), and several units of state enterprises named Perhutani and Inhutani. There is no obligation to become member of these associations and each company may conduct business of their own. Despite its high contribution to the country's revenue, the government does not have special promotion activities for wood products. Promotions are carried out by private sectors and wood products are sold directly to buyers.

Policy

In an attempt to improve wood/forest industry performance and guarantee continue supply of wood produced under sustainable forest management practices, the government requires exporters of wood products to have a special license (ETPIK-Ekporter Terdaftar Produk Industri Kehutanan) by registering the company to the Ministry of Industry and Trade. Under a joint decree of the Minister of Industry and Trade (MOIT) No. 803/MPP/Kep/1/2003 and Minister of Forestry No. 10267/Kpts-II/2002 the government also formed a Forestry Industry Revitalization Body (BRIK - Badan Revitalisasi Industri Kehutanan) on December 13, 2002. BRIK is an independent agency that is given authorization in controlling forest products exports by issuing recommendations assuring that the logs were processed into products from legally cut and purchased wood. This independent agency continues to be controversial since the implementation regulation (petunjuk pelaksanaan) has not yet been established and again, law enforcement is the key in making such controls work.

In line with the function of BRIK, the MOIT regulates exports of forest products under Decree No. 32/MPP/Kep/1/2003 dated January 22, 2003. The regulation was effective as of March 15, 2003. Under this

regulation, exports of wood products or forest products may only be carried out by exporters who granted export license (ETPIK-Eksportir Terdaftar Produk Industri Kehutanan) from the MOIT. One of the requirements to get the license is a recommendation from the BRIK. As of June 10, 2003, BRIK issued 3,592 recommendations for 3,625 ETPIK applications of which 3,325 have been granted licenses.

In order to guarantee adequate supply of logs for the local industry while there are strong pressures in maintaining forest condition, the government encourages imports of logs and wood products. Some proposals have been prepared to facilitate imports such as zero import duty and exemptions on other tax and custom regulations. Should this petition be approved, a window of opportunity for American forest products, particularly logs and/or veneer of temperate hardwoods species would significantly increase. Local plywood and other wood-based industries have some knowledge of these species, however, more information and familiarization on the availability, quality, specifications, import/shipping procedure, and the numerous applications of American temperate hardwoods should be designated and promoted. Development in property and modern trends in improving and modernizing apartment/office interiors would be good target for American hardwood products.

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Date: 7/2/2003